

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

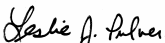
YES NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

# **City of Bloomfield Hills, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2006**

# City of Bloomfield Hills, Michigan

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## Independent Auditor's Report

To the City Commission  
City of Bloomfield Hills, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Bloomfield Hills, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bloomfield Hills, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Bloomfield Hills, Michigan as of June 30, 2006 and the respective changes in financial position, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the City Commission  
City of Bloomfield Hills, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bloomfield Hills, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moreau, PLLC*

September 15, 2006

# **City of Bloomfield Hills, Michigan**

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## **Management's Discussion and Analysis**

Our discussion and analysis of the City of Bloomfield Hills, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide general information about the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

### **Government-wide Financial Statements**

The government-wide statements provide information about the City as a whole, using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the City's assets and liabilities. Net assets, the difference between the City's assets and liabilities, are one way to measure the City's overall financial health. The statement of activities reflects all of the current year's revenues and expenses, regardless of when cash is actually received or paid.

All of the City's basic services are included in governmental activities such as police, fire, public works, and general administration, all of which are accounted for through the General Fund. Property taxes, state-shared revenues, charges for services, licenses and permits, and other revenues comprise the revenue for the governmental activities. Also included as governmental activities are Major and Local Streets Funds, General Obligation Debt Fund, Budget Stabilization Fund, Drug Enforcement Fund, and Water and Sewer Construction Fund.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's significant funds, not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of revenues and expenditures for particular purposes. Some funds are required by state law and bonding requirements. Other funds are established to control and manage money for particular purposes.

# City of Bloomfield Hills, Michigan

## Management's Discussion and Analysis (Continued)

The City has the following fund type:

**Governmental Funds** - All of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash, flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps the reader determine if there are more or fewer financial resources available to spend in the near future to finance the City's programs. In the annual financial statements, we refer to our funds as the General Fund, General Obligation Debt Fund, Water and Sewer Construction Fund, and other nonmajor governmental funds.

### Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2006:

- State-shared revenue reductions have been in the forefront of interest in making budget predictions over the past few years. State-shared revenues currently provide the City with \$287,664, a reduction of \$2,549 as compared with fiscal year 2005. This continues the five-year trend of reduced revenue sharing.
- Property tax and related revenues increased from \$6,546,571 to \$6,822,688, or 4.22 percent, as compared to fiscal year 2005. This increase is due to an increase in the taxable value of the City.
- Interest income increased from \$111,957 in fiscal year 2005 to \$336,596 in fiscal year 2006, an increase of 200 percent. This increase is due to additional cash available for investment by the increase in fees in the Water and Sewer Fund as well as an increase in interest rates.
- Overall, General Fund revenues for fiscal year 2006 were \$230,260 above the amended budget.

# City of Bloomfield Hills, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in millions of dollars):

	Governmental Activities	
	2006	2005
<b>Assets</b>		
Current assets	\$ 6.8	\$ 5.1
Noncurrent assets	<u>13.6</u>	<u>14.1</u>
Total assets	20.4	19.2
<b>Liabilities</b>		
Current liabilities	1.7	1.5
Long-term liabilities	<u>3.9</u>	<u>5.0</u>
Total liabilities	<u>5.6</u>	<u>6.5</u>
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	8.6	8.3
Restricted	2.5	1.5
Unrestricted	<u>3.7</u>	<u>2.9</u>
Total net assets	<u><u>\$ 14.8</u></u>	<u><u>\$ 12.7</u></u>



# City of Bloomfield Hills, Michigan

## Management's Discussion and Analysis (Continued)

The City's combined net assets are \$14.8 million as compared to \$12.7 million for the prior year. This represents a 16 percent increase.

The bottom of the table shows the changes in net assets during the current year. As this is the third year of implementation for the revised reporting format, comparative data is supplied in this report.

The following table shows the changes in the net assets during the current year and in the prior year (in millions of dollars):

	Governmental Activities	
	2006	2005
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 0.8	\$ 0.9
Operating grants and contributions	0.3	0.3
Capital grants and contributions	0.7	0.6
General revenue:		
Property taxes	6.8	6.5
State-shared revenue	0.3	0.3
Unrestricted investment earnings	0.3	0.1
Franchise fees	0.1	0.1
Miscellaneous	-	0.1
Total revenue	9.3	8.9
<b>Program Expenses</b>		
General government	1.8	1.6
Public safety	3.9	3.8
Public works	1.4	1.3
Interest on long-term debt	0.1	0.2
Total program expenses	7.2	6.9
<b>Change in Net Assets</b>	<b>\$ 2.1</b>	<b>\$ 2.0</b>

# **City of Bloomfield Hills, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Governmental Activities**

As you read through the next several paragraphs, it is important to remember that governmental activities not only include the General Fund, but also the General Obligation Debt Fund, the Water and Sewer Construction Fund, and other nonmajor governmental funds accounts.

The City's governmental revenues totaled \$9.3 million, with the largest revenue source being property taxes. Property taxes represent \$6.8 million of total governmental revenues, which is approximately 72 percent of total governmental revenues. This percentage of total revenues has been relatively consistent over the past several fiscal years.

During fiscal year 2006, the City received capital charge revenue of approximately \$700,000. This revenue will be set aside in the Water and Sewer Construction Fund and will be used to fund future improvements to the water and sewer lines infrastructure.

All other revenues are received from many small revenue sources. For example: the City collected approximately \$300,000 from state sources, \$518,000 from permits, license fees, and charges, \$381,000 reimbursement from the 48<sup>th</sup> District Court, \$336,000 in interest earnings, and nearly \$170,000 in miscellaneous-type charges.

The Major and Local Streets Funds revenue totals approximately \$300,000 and reflects Act 51 funds for our major and local streets. Act 51 funding has been fairly stable over the past three fiscal years. We are unaware of any significant changes at the state level that will negatively affect this revenue in the near future.

Typical to other communities in the area, a heavy reliance on property taxes continues to impact our budget projections. The City's reliance on unrealized double-digit valuation increases, coupled with the limitations on property tax growth due to Proposal A, may affect future revenue projections.

From an overall perspective, the City remains in good financial standing. The budgetary reductions implemented as a part of the 2005-2006 budget impacted the overall operation of the City.

### **Capital Assets and Debt Administration**

At the end of fiscal year 2006, the City has \$13.6 million invested in a wide range of capital assets, including land, buildings, equipment, roads, and water and sewer lines.

Debt of \$1.8 million is related to the debt service on storm system and sewer projects (including Evergreen-Farmington, Bloomfield Village CSO, and City of Bloomfield Hills CSO) mainly from the late 1980s, with debts retiring at staggered intervals between 2009 and 2117; \$2.9 million relates to the Building Authority bonds originating in 1998, maturing in 2009, with \$196,000 owing on three installment purchase agreements for two dump trucks and a streetsweeper; that debt matures in stages beginning in 2007 through 2011. The City is expected to take on further debt in the coming year for significant road improvements.

# **City of Bloomfield Hills, Michigan**

## **Management's Discussion and Analysis (Continued)**

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### **General Fund Budgetary Highlights**

Over the course of the fiscal year, the City administration and City Commission monitor and, if necessary, amend the budget to prevent expenditures in excess of budget as required by the State of Michigan Budget Act.

It has been the City's history of monitoring the revenue and expenditures reports on a monthly basis to track the unfolding of each fiscal year. Expenditures have been allowed to grow provided that the revenues are available to support them. This approach has benefited the City from many different perspectives. It has allowed us to rebuild our financial position, pay for one-time large scale projects with cash, and provided the opportunity for retooling our operations.

### **Economic Factors and the Future**

There are several economic factors that will continue to challenge the City. These include state revenue sharing, health insurance, pension costs, our overall millage rate, and state laws limiting the growth in property taxes. The 1978 Headlee Amendment and Proposal A passed in 1993 both limit growth to the rate of inflation. Headlee requires a rollback in the overall millage rate if total property values grow at a rate higher than inflation, and Proposal A limits increases in individual property tax assessments to the rate of inflation.

Because we are a service provider, the majority of our costs are related to active and retired personnel. Double-digit increases in our health care costs will continue to place a burden on our overall city expenditures as we continue to rely on our tax base to maintain services.

Other factors that may/will affect our financial future include the final fate of state-shared revenues, the Michigan Department of Environmental Quality's decisions relative to our sanitary sewer system, the future of storm water management, and infrastructure investments.

### **Contacting the City's Financial Management**

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, please contact the City administration at 248.644.1520, and as always you are welcome to visit our website at [www.bloomfieldhillsmi.net](http://www.bloomfieldhillsmi.net).

# City of Bloomfield Hills, Michigan

## Statement of Net Assets June 30, 2006

		Governmental Activities
<b>Assets</b>		
Cash and investments (Note 3)		\$ 6,488,234
Receivables:		
Customers		122,195
Delinquent personal property taxes		57,400
Other		58,076
Due from other governmental units		102,577
Prepaid expense and other assets		58,042
Capital assets - Net (Note 4):		
Nondepreciable capital assets	\$ 339,638	
Depreciable capital assets - Net	<u>13,210,144</u>	<u>13,549,782</u>
Total assets		20,436,306
<b>Liabilities</b>		
Accounts payable		173,513
Accrued and other liabilities		185,926
Noncurrent liabilities (Note 6):		
Due within one year	1,332,315	
Due in more than one year	<u>3,911,110</u>	<u>5,243,425</u>
Total liabilities		<u>5,602,864</u>
<b>Net Assets</b>		
Invested in capital assets - Net of related debt		8,625,212
Restricted:		
PEG-related expenditures		106,483
Construction code activity (Note 2)		164,423
Streets and highways		890,707
Drug enforcement		1,190
Capital projects		1,310,320
Unrestricted		<u>3,735,107</u>
Total net assets		<u><u>\$ 14,833,442</u></u>

# City of Bloomfield Hills, Michigan

## Statement of Activities Year Ended June 30, 2006

	Program Revenues				Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets - Primary Government
<b>Functions/Programs</b>					
Primary government -					
Governmental activities:					
General government	\$ 1,779,736	\$ 378,972	\$ -	\$ -	\$ (1,400,764)
Public safety	3,938,767	427,119	7,192	-	(3,504,456)
Public works	1,468,361	-	302,048	717,469	(448,844)
Interest on long-term debt	106,537	-	-	-	(106,537)
Total primary government	<u>\$ 7,293,401</u>	<u>\$ 806,091</u>	<u>\$ 309,240</u>	<u>\$ 717,469</u>	(5,460,601)
General revenues:					
Property taxes					6,822,688
State-shared revenues					287,664
Unrestricted investment earnings					336,596
Franchise fees					84,361
Miscellaneous					62,347
Gain on sale of assets					1,441
Total general revenues					<u>7,595,097</u>
<b>Change in Net Assets</b>					2,134,496
<b>Net Assets - Beginning of year</b>					<u>12,698,946</u>
<b>Net Assets - End of year</b>					<u><b>\$ 14,833,442</b></u>

# City of Bloomfield Hills, Michigan

## Governmental Funds Balance Sheet June 30, 2006

	General Fund	General Obligation Fund	Water and Sewer Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and investments (Note 3)	\$ 3,948,170	\$ 419,689	\$ 1,295,846	\$ 824,529	\$ 6,488,234
Receivables	237,671	-	-	-	237,671
Due from other funds (Note 5)	-	11,765	14,474	168,596	194,835
Due from other governmental units	52,703	-	-	49,874	102,577
Prepaid expenses and other assets	58,042	-	-	-	58,042
Total assets	<u>\$ 4,296,586</u>	<u>\$ 431,454</u>	<u>\$ 1,310,320</u>	<u>\$ 1,042,999</u>	<u>\$ 7,081,359</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 172,411	\$ -	\$ -	\$ 1,102	\$ 173,513
Accrued and other liabilities	144,837	-	-	-	144,837
Due to other funds (Note 5)	194,835	-	-	-	194,835
Deferred revenues	57,400	-	-	-	57,400
Total liabilities	569,483	-	-	1,102	570,585
<b>Fund Balances</b>					
Reserved for:					
PEG-related expenditures	106,483	-	-	-	106,483
Construction Code activity (Note 2)	164,423	-	-	-	164,423
Prepaid expenses	43,424	-	-	-	43,424
Unreserved - Designated for:					
Compensated absences	318,855	-	-	-	318,855
Fire truck	320,000	-	-	-	320,000
Unreserved - Reported in:					
General Fund	2,773,918	-	-	-	2,773,918
Special Revenue Funds	-	-	-	1,041,897	1,041,897
Debt Service Fund	-	431,454	-	-	431,454
Capital Projects Funds	-	-	1,310,320	-	1,310,320
Total fund balances	<u>3,727,103</u>	<u>431,454</u>	<u>1,310,320</u>	<u>1,041,897</u>	<u>6,510,774</u>
Total liabilities and fund balances	<u>\$ 4,296,586</u>	<u>\$ 431,454</u>	<u>\$ 1,310,320</u>	<u>\$ 1,042,999</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	13,549,782
Delinquent personal property taxes are expected to be collected over several years, and are not available to pay for current year expenditures	57,400
Accrued interest payable is not due and payable in the current period and is not reported in the funds	(41,089)
Compensated absences are not due and payable in the current period and are not reported in the funds	(318,855)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(4,924,570)
Net assets of governmental activities	<u>\$ 14,833,442</u>

# City of Bloomfield Hills, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General Fund	General Obligation Debt Fund	Water and Sewer Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>					
Property taxes	\$ 6,839,199	\$ -	\$ -	\$ -	\$ 6,839,199
Licenses and permits	391,301	-	-	28,712	420,013
State sources:					
State shared revenues	287,664	-	-	-	287,664
Act 51 highway	-	-	-	302,048	302,048
Other state sources	10,553	-	-	-	10,553
Capital charges	-	-	602,257	-	602,257
Charges for services	97,567	-	-	-	97,567
Fines and forfeitures - District Court	380,923	-	-	-	380,923
Tap fees	-	-	86,500	-	86,500
Interest	265,350	12,567	38,833	19,846	336,596
Other	84,431	-	-	-	84,431
Total revenue	8,356,988	12,567	727,590	350,606	9,447,751
<b>Expenditures</b>					
General government	1,786,015	-	-	-	1,786,015
Public safety	3,410,196	-	-	375	3,410,571
Public works	371,973	-	121,768	289,944	783,685
48th District Court	319,837	-	-	-	319,837
Capital expenditures	464,688	-	-	-	464,688
Debt service	-	1,182,676	-	-	1,182,676
Total expenditures	6,352,709	1,182,676	121,768	290,319	7,947,472
<b>Excess of Revenue Over (Under) Expenditures</b>	2,004,279	(1,170,109)	605,822	60,287	1,500,279
<b>Other Financing Sources (Uses)</b>					
Transfers in (Note 5)	-	1,200,000	-	296,925	1,496,925
Transfers out (Note 5)	(1,449,925)	-	-	(47,000)	(1,496,925)
Proceeds from installment debt	221,835	-	-	-	221,835
Total other financing sources (uses)	(1,228,090)	1,200,000	-	249,925	221,835
<b>Net Change in Fund Balances</b>	776,189	29,891	605,822	310,212	1,722,114
<b>Fund Balances</b> - Beginning of year	2,950,914	401,563	704,498	731,685	4,788,660
<b>Fund Balances</b> - End of year	<u>\$ 3,727,103</u>	<u>\$ 431,454</u>	<u>\$ 1,310,320</u>	<u>\$ 1,041,897</u>	<u>\$ 6,510,774</u>

# City of Bloomfield Hills, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006**

**Net Change in Fund Balances - Total Governmental Funds** \$ 1,722,114

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are recorded as capital assets 392,588

Governmental funds allocate the cost of capital assets over their estimated useful lives as depreciation (906,573)

Proceeds from the sale of capital assets reported as revenue in the governmental funds; the statement of activities records a gain or loss, included in the general government expense (3,343)

Certain revenues reported in the statement of activities in the current year will not provide current financial resources in the governmental funds until future years 13,010

Proceeds acquired through an installment obligation are recorded as other financing sources in governmental funds; the statement of activities records an addition to long-term debt (221,835)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities, where it reduces long-term debt 1,058,021

Interest expense is recorded when incurred in the statement of activities 18,118

Decrease in accumulated employee sick and vacation pay is recorded when earned in the statement of activities 62,396

**Change in Net Assets of Governmental Activities** \$ 2,134,496



# City of Bloomfield Hills, Michigan

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## **Fiduciary Fund Statement of Assets and Liabilities June 30, 2006**

	Trust and Agency Fund
	<hr/>
<b>Assets</b>	
Cash and cash equivalents	\$ 176,777
Receivables - Other	<hr/> 153,191
Total assets	<hr/> <b>\$ 329,968</b> <hr/>
<b>Liabilities - Refundable deposits</b>	<hr/> <b>\$ 329,968</b> <hr/>

# **City of Bloomfield Hills, Michigan**

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# City of Bloomfield Hills, Michigan

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## Notes to Financial Statements June 30, 2006

### Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Bloomfield Hills, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Bloomfield Hills, Michigan:

#### **Reporting Entity**

The City of Bloomfield Hills, Michigan is governed by an elected five-member commission. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations.

**Blended Component Unit** - The City's Building Authority is governed by a board that is appointed by the Commission. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. There are currently no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, delinquent personal property taxes will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**General Obligation Debt Fund** - The General Obligation Debt Fund is used to account for the annual payment of principal, interest, and expenses in connection with all long-term debt.

**Water and Sewer Construction Fund** - The Water and Sewer Construction Fund is used to account for money received from residents to be used for future construction of water and sewer infrastructure.

# City of Bloomfield Hills, Michigan

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## Notes to Financial Statements June 30, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund type:

**Agency Fund** - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its government-wide financial statements.

#### **Property Tax Revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2005 tax is levied and collectible on July 1, 2005 and is recognized as revenue in the year ended June 30, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the City totaled \$815 million, on which taxes levied consisted of 8.30 mills for operating purposes. This resulted in \$6.8 million for operating. These amounts are recognized in the General Fund financial statements as tax revenue.

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

# City of Bloomfield Hills, Michigan

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## Notes to Financial Statements June 30, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	20 years
Building and improvements	50 years
Machinery, equipment, and vehicles	5 to 20 years
Drain usage rights	50 years
Infrastructure	20 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is a liability for half of the unpaid accumulated sick leave since the City has a policy to pay half the amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Cumulative surplus - July 1, 2005		\$	122,621
Current year building permit revenue			318,830
Related expenses:			
Direct costs	\$	211,571	
Estimated indirect costs		<u>65,457</u>	<u>277,028</u>
Current year surplus			<u>41,802</u>
Cumulative surplus - June 30, 2006		\$	<u><u>164,423</u></u>

# **City of Bloomfield Hills, Michigan**

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## **Notes to Financial Statements June 30, 2006**

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated six banks for the deposit of its funds. Each financial intermediary, broker, or dealer that holds the City's funds must be provided with a copy of the investment policy and comply with the policy. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in all of the above securities. The City's deposits and investments are currently in compliance with its investment policy and statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$1,702,384 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$696,034 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.



# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2006

### Note 3 - Deposits and Investments (Continued)

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
FNMA note - JP Morgan	\$ 294,728	12/13/2006

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than U.S. government) are as follows:

<u>Investment type</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Primary government - Bank:			
Bank investment pool - Comerica	\$ 4,666,616	PI	Moody's
FNMA note - JPMorgan	249,728	A-1+	S&P
Fiduciary funds - Bank investment pool - Comerica	172,489	PI	Moody's

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2006

### Note 4 - Capital Assets

Capital asset activity of the City's governmental activities was as follows:

Governmental Activities	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Capital assets not being depreciated - Land	\$ 339,638	\$ -	\$ -	\$ 339,638
Capital assets being depreciated:				
Land improvements	240,500	-	-	240,500
Buildings and improvements	6,657,911	13,082	-	6,670,993
Machinery, equipment, and vehicles	2,846,990	379,506	(123,000)	3,103,496
Drain usage rights	3,209,940	-	-	3,209,940
Infrastructure	12,342,640	-	-	12,342,640
Subtotal	25,297,981	392,588	(123,000)	25,567,569
Accumulated depreciation:				
Land improvements	90,188	12,025	-	102,213
Buildings and improvements	912,747	132,350	-	1,045,097
Machinery, equipment, and vehicles	2,111,591	154,096	(119,657)	2,146,030
Drain usage rights	964,060	78,240	-	1,042,300
Infrastructure	7,491,923	529,862	-	8,021,785
Subtotal	11,570,509	906,573	(119,657)	12,357,425
Net capital assets being depreciated	13,727,472	(513,985)	(3,343)	13,210,144
Net capital assets	\$ 14,067,110	\$ (500,903)	\$ (3,343)	\$ 13,549,782

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 103,983
Public safety	189,125
Public works	613,465
Total governmental activities	<u>\$ 906,573</u>

**Construction Commitments** - The City has one project that was started in fiscal year 2006. The project relates to water and sewer system maintenance and reconstruction of damaged water and sewer lines. To date, only maintenance work has been done. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Sanitary sewer maintenance services	\$ 121,768	\$ 1,353,232

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2006

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Obligation Debt Fund	General Fund	\$ 11,765
Water and Sewer Construction Fund	General Fund	14,474
Nonmajor governmental funds:		
Major Street Fund	General Fund	9,896
Local Street Fund	General Fund	8,700
Budget Stabilization Fund	General Fund	<u>150,000</u>
	Total nonmajor governmental funds	<u>168,596</u>
	Total	<u>\$ 194,835</u>

These balances result from the time lag between the dates payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	General Obligation Debt Fund	\$ 1,200,000
	Nonmajor governmental funds:	
	Major Streets Fund	72,450
	Local Streets Fund	<u>177,475</u>
	Total General Fund	1,449,925
Nonmajor governmental funds - Major Streets Fund	Nonmajor governmental funds - Local Streets Fund	<u>47,000</u>
	Total	<u>\$ 1,496,925</u>

The transfers from the General Fund to the General Obligation Debt Fund represent the use of unrestricted resources to service debt payments, in accordance with budgetary authorizations; the transfer from the General Fund to the Major Streets Fund and the Local Streets Fund represents the use of unrestricted resources to help finance future road projects; and the transfer from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenues in accordance with Act 51.

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2006

### Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
General obligation bonds:						
Evergreen-Farmington Bonds:						
Evergreen-Farmington Bonds:						
Amount of issue - \$12,500	3.70% -					
Maturing through 2010	4.85%	\$ 4,914	\$ -	\$ (887)	\$ 4,027	\$ 870
Evergreen-Farmington Amy Relief Sewers:						
Amount of issue - \$785,104	4.50% -					
Maturing through 2009	4.60%	251,006	-	(72,207)	178,799	71,061
Evergreen-Farmington Permanent Meter and Interceptor Rehabilitation:						
Amount of issue - \$785,104						
Maturing through 2009	2.31%	38,993	-	(6,927)	32,066	6,696
Oakland County CSO Drain Bonds:						
Bloomfield Village CSO Drainage Bonds, Series 1994 A:						
Amount of issue - \$161,233						
Maturing through 2017	2.00%	100,803	-	(7,457)	93,346	7,715
Bloomfield Village CSO Drainage District Refunding Bonds, Series 2001A:						
Amount of issue - \$141,432						
Maturing through 2017	5.14%	108,004	-	(7,972)	100,032	7,972
Bloomfield Village CSO Drainage District Refunding Bonds, Series 2001B:						
Amount of issue - \$468,013						
Maturing through 2017	5.14%	369,269	-	(23,658)	345,611	23,401
City of Bloomfield Hills CSO Drainage District Drain Refunding Bonds, Series 2003:						
Amount of issue - \$1,125,000	1.25% -					
Maturing through 2017	3.38%	1,030,000	-	(65,000)	965,000	65,000

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2006

### Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities (Continued)</b>						
State Revolving Fund Loan						
Bloomfield Hills - Michigan State Revolving Loan Fund:						
Amount of issue - \$250,000						
Maturing through 2015	2.25%	\$ 120,000	\$ -	\$ (10,000)	\$ 110,000	\$ 15,000
Building Authority Bonds						
1998 Building Authority Bonds:						
Amount of issue - \$7,100,000						
Maturing through 2009	3.75%	3,700,000	-	(800,000)	2,900,000	900,000
Installment Purchase Obligations:						
2003 Installment Purchase Obligation - Dump truck:						
Amount of issue - \$94,418						
Maturing through 2007		37,767	-	(18,884)	18,883	18,883
2006 Installment Purchase Obligation - Dump truck:						
Amount of issue - \$97,835						
Maturing through 2009		-	97,835	(21,814)	76,021	17,441
2006 Installment Purchase Obligation - Sweeper:						
Amount of issue - \$124,000						
Maturing through 2011		-	124,000	(23,215)	100,785	18,276
Total bonds and notes		5,760,756	221,835	(1,058,021)	4,924,570	1,152,315
Other long-term obligations:						
Employee compensated absences		381,251	-	(62,396)	318,855	180,000
Personal property tax multiplier liability		29,521	-	(29,521)	-	-
Total governmental activities		<u>\$ 6,171,528</u>	<u>\$ 221,835</u>	<u>\$ (1,149,938)</u>	<u>\$ 5,243,425</u>	<u>\$ 1,332,315</u>

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2006

### Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2007	\$ 1,152,315	\$ 158,563	\$ 1,310,878
2008	1,153,983	115,928	1,269,911
2009	1,333,572	69,043	1,402,615
2010	197,014	40,019	237,033
2011	167,017	33,481	200,498
2012-2016	831,696	86,199	917,895
2017	88,973	1,715	90,688
Total	<u>\$ 4,924,570</u>	<u>\$ 504,948</u>	<u>\$ 5,429,518</u>

### Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, and participates in the Michigan Municipal Risk Management Authority (MMRMA) state pool for claims related to general liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2006

### Note 8 - Defined Benefit Pension Plan

**Plan Description** - The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all public safety union employees and department of public works (DPW) union employees hired before December 31, 2004. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the MERS for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 1.7 percent to 5 percent of gross wages.

**Annual Pension Cost** - For the year ended June 30, 2006, the City's annual pension cost of \$533,880 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 investment rate of return, (b) projected salary increases of 4.5 percent to 8.66 percent per year, and (c) the assumption that benefits will increase 2.5 percent per year annually after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis for the general administration division; and on an open basis for the public works, public safety dispatch, public safety officers, public safety sergeants, and executive divisions. The remaining amortization period is between 10 and 30 years.

	Fiscal Year Ended June 30		
	2004	2005	2006
Annual pension costs (APC)	\$ 661,588	\$ 589,368	\$ 533,880
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2006

### Note 8 - Defined Benefit Pension Plan (Continued)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/03	\$ 13,409,865	\$ 20,012,444	\$ (6,602,579)	67.01	\$ 2,076,283	318.00
12/31/04	14,202,720	21,155,294	(6,952,574)	67.14	1,966,379	353.57
12/31/05	14,703,966	23,099,541	8,395,575	63.65	1,892,117	443.71

### Note 9 - Defined Contribution Pension Plan

The City provides pension benefits to all of its full-time nonunion employees and DPW employees hired after January 1, 2005 through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by a City Commission approved resolution, the City contributes 1 percent of the employees' gross earnings for nonunion employees and 15 percent of employees' gross earnings for DPW employees. Nonunion employees are not required and have not elected to make contributions to the plan; however, DPW employees are required to contribute 5 percent of gross earnings. Employees' accounts are fully vested immediately for nonunion employees while the vesting terms under the DPW plan are still under negotiation as of June 30, 2006.

The City's total payroll during the current year (covering these two groups of employees) was \$178,147. The current year contribution was calculated based on covered payroll in the same amount, resulting in an employer contribution of \$466 for nonunion employees and \$7,441 for DPW employees. DPW employee contributions were \$3,190.

### Note 10 - Other Postemployment Benefits

The City provides health care to all full-time employees upon retirement, in accordance with labor contracts. Currently, 36 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; this totaled approximately \$471,000. These benefits are paid annually from the General Fund.



### **Note 10 - Other Postemployment Benefits (Continued)**

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

## **Required Supplemental Information**

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# City of Bloomfield Hills, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Revenue</b>				
<b>Property Taxes</b>				
Real and personal property taxes	\$ 6,788,281	\$ 6,788,281	\$ 6,753,031	\$ (35,250)
Delinquent personal property taxes	7,000	7,000	12,213	5,213
Tax penalties	40,000	40,000	73,955	33,955
Total property taxes	6,835,281	6,835,281	6,839,199	3,918
<b>Licenses and Permits</b>				
Building permits	150,000	150,000	213,955	63,955
Electrical, heating, and plumbing permits	90,000	90,000	97,645	7,645
Cable television franchise fee	50,000	50,000	67,104	17,104
Public education and government fees	20,000	20,000	9,257	(10,743)
Other	10,850	10,850	3,340	(7,510)
Total licenses and permits	320,850	320,850	391,301	70,451
<b>State Sources</b>				
State-shared revenue	285,000	285,000	287,664	2,664
Other	8,000	8,000	10,553	2,553
Total state sources	293,000	293,000	298,217	5,217
<b>Charges for Services</b>	66,000	66,000	97,567	31,567
<b>Fines and Forfeitures - District Court</b>	438,000	438,000	380,923	(57,077)
<b>Interest</b>	75,000	75,000	265,350	190,350
<b>Other Revenue</b>				
Sale of assets	10,000	10,000	4,784	(5,216)
Other	82,500	82,500	79,647	(2,853)
Total other revenue	92,500	92,500	84,431	(8,069)
<b>Operating Transfers In</b>	195,000	195,000	188,903	(6,097)
Total revenue	8,315,631	8,315,631	8,545,891	230,260

# City of Bloomfield Hills, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Expenditures</b>				
<b>General Government</b>				
City Commission	\$ 5,350	\$ 5,350	\$ 1,468	\$ 3,882
City manager	90,700	91,700	80,852	10,848
Assessor	57,500	57,500	42,384	15,116
Attorney	140,000	213,000	226,631	(13,631)
Clerk	83,600	87,100	64,354	22,746
Treasurer	78,155	79,155	78,366	789
General administration	892,610	977,110	861,812	115,298
Building and grounds	181,139	188,639	179,168	9,471
Building and planning	173,550	173,550	169,571	3,979
Engineering	250,000	250,000	64,609	185,391
Library	50,000	50,000	16,800	33,200
Total general government	2,002,604	2,173,104	1,786,015	387,089
<b>Public Safety</b>	3,313,166	3,580,354	3,410,196	170,158
<b>Public Works</b>	587,720	592,720	560,876	31,844
<b>48th District Court</b>	425,000	425,000	319,837	105,163
<b>Capital Outlay</b>	310,175	320,060	242,853	77,207
<b>Operating Transfers Out</b>	1,676,966	1,676,966	1,449,925	227,041
Total expenditures	8,315,631	8,768,204	7,769,702	998,502
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	-	(452,573)	776,189	1,228,762
<b>Fund Balance - Beginning of year</b>	2,950,914	2,950,914	2,950,914	-
<b>Fund Balance - End of year</b>	<u>\$ 2,950,914</u>	<u>\$ 2,498,341</u>	<u>\$ 3,727,103</u>	<u>\$ 1,228,762</u>

# City of Bloomfield Hills, Michigan

## Notes to Required Supplemental Information June 30, 2006

### Note 1 - Reconciliation of Budgeted Amounts to Basic Financial Statements

The budgetary comparison schedule for the General Fund is presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budgetary comparison schedule to the governmental funds (statement of revenues, expenditures, and changes in fund balances):

	General Fund	
	Total	Total
	Revenue	Expenditures
Amounts per operating statement	\$ 8,356,988	\$ 6,352,709
Reimbursements of expenditures recorded as operating transfer on budget statement	188,903	188,903
Capital assets acquired with installment debt	-	(221,835)
Operating transfers budgeted as revenue and expenditures on budget statement	-	1,449,925
Amounts per budget statement	<u>\$ 8,545,891</u>	<u>\$ 7,769,702</u>

### Note 2 - Budgetary Information

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except the following:

- Operating transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”
- Reimbursement of expenditure has been recorded as an operating transfer in rather than a decrease to related expenditure. All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. During the year, the budget was amended in a legally permissible manner.
- Capital assets acquired with installment debt are reported net of the debt proceeds.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

# **City of Bloomfield Hills, Michigan**

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## **Notes to Required Supplemental Information June 30, 2006**

### **Note 2 - Budgetary Information (Continued)**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before April 30, the finance director/treasurer and the City Manager prepare a proposed operating budget for the fiscal year commencing July 1 and submit it to the City Commission. The budget must be adopted through a passage of a budget resolution no later than May 31.
2. Public hearings are conducted to obtain citizen comments.
3. The legislative budget is adopted by department and fund on a departmental basis. Line item detail is provided as a general guideline. Throughout the year, the Commission receives the requests to amend the activity budget. All amendments must be approved by a vote of the City Commission. Changes in line items within an activity may be made and approved by the finance director/treasurer.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City of Bloomfield Hills, Michigan did not incur any expenditures that were significantly in excess of budgetary amounts.

## **Other Supplemental Information**

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# City of Bloomfield Hills, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Major Streets	Local Streets	Budget Stabilization	Drug Enforcement	
<b>Assets</b>					
Cash and investments	\$ 350,247	\$ 473,092	\$ -	\$ 1,190	\$ 824,529
Due from General Fund	9,896	8,700	150,000	-	168,596
Due from other governmental units	33,890	15,984	-	-	49,874
Total assets	<u>\$ 394,033</u>	<u>\$ 497,776</u>	<u>\$ 150,000</u>	<u>\$ 1,190</u>	<u>\$ 1,042,999</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b> - Accounts payable	\$ 660	\$ 442	\$ -	\$ -	\$ 1,102
<b>Fund Balances</b> - Unreserved	<u>393,373</u>	<u>497,334</u>	<u>150,000</u>	<u>1,190</u>	<u>1,041,897</u>
Total liabilities and fund balances	<u>\$ 394,033</u>	<u>\$ 497,776</u>	<u>\$ 150,000</u>	<u>\$ 1,190</u>	<u>\$ 1,042,999</u>



# City of Bloomfield Hills, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2006

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Major Streets	Local Streets	Budget Stabilization	Drug Enforcement	
<b>Revenue</b>					
License and permits	\$ 14,062	\$ 14,650	\$ -	\$ -	\$ 28,712
State sources	205,246	96,802	-	-	302,048
Interest income	10,439	9,407	-	-	19,846
Total revenue	229,747	120,859	-	-	350,606
<b>Expenditures</b>					
Public safety	-	-	-	375	375
Public works	85,876	204,068	-	-	289,944
Total expenditures	85,876	204,068	-	375	290,319
<b>Excess of Revenue Over (Under) Expenditures</b>	143,871	(83,209)	-	(375)	60,287
<b>Other Financing Sources (Uses)</b>					
Transfers in	72,450	224,475	-	-	296,925
Transfers out	(47,000)	-	-	-	(47,000)
Total other financing sources (uses)	25,450	224,475	-	-	249,925
<b>Net Change in Fund Balances</b>	169,321	141,266	-	(375)	310,212
<b>Fund Balances - Beginning of year</b>	224,052	356,068	150,000	1,565	731,685
<b>Fund Balances - End of year</b>	<b>\$ 393,373</b>	<b>\$ 497,334</b>	<b>\$ 150,000</b>	<b>\$ 1,190</b>	<b>\$ 1,041,897</b>



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September 15, 2006

To the Honorable Mayor and Members  
of the City Commission  
City of Bloomfield Hills  
45 East Long Lake Road  
Bloomfield Hills, MI 48304

Dear Mayor and Commission Members:

We have recently completed the audit of the basic financial statements of the City of Bloomfield Hills for the year ended June 30, 2006. In addition to our audit report, we offer the following comments and recommendations for your consideration:

### **Cash Reconciliations**

Over the past several years, the City has been experiencing problems with its general ledger software and these problems have affected postings to cash. During the year, the City treasurer and the software vendor have rectified the problem and these items are no longer an issue with the bank reconciliations as of June 30, 2006.

We noted in last year's letter that the bank reconciliations were not reviewed by a second person. During our testing in the current year, we noted that the City's staff implemented new procedures over cash to help increase the internal controls over this general ledger balance. To further enhance internal controls over the accuracy of cash, we suggest that all reconciling items each month on the bank reconciliations be more specifically identified including a description and how the item was ultimately resolved.

### **ACH Transactions and Vacation and Sick Time**

In last year's letter, we noted wire transfers were not being reviewed by a second person. We also noted that the tracking of sick and vacation time was not centralized. During our testing in the current year, we are pleased to note that both of these items have been corrected and new internal controls have been put in place for both of these items. We feel it is appropriate to recognize the City's staff for implementing these additional internal control procedures during the year.



A worldwide association of independent accounting firms

September 15, 2006

## **Legislative and Other Matters**

### **State-shared Revenue**

Municipalities in Michigan have and will continue to feel the effects of the slow-down in the State's economy. State-shared revenue totaled approximately \$350,000 in 2006 and accounted for 4 percent of the City's total General Fund revenue. The City is fortunate compared to most local units of government, especially townships where reliance on state-shared revenue for the General Fund is much greater. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue-sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue-sharing line item in the State's budget, revenue-sharing payments for the last several years have been lower than anticipated.

Although the actual sales tax revenue collected by the State would support an increase to state-shared revenue payments, the State's budget situation remains troublesome at best. It is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state-shared revenue as this line item in the State's budget remains vulnerable.

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$5,000 at risk in its General Fund budget based on the State's budget for the 2006-2007 year, which is only a minimal loss of revenue. We will continue to update the City as developments occur to keep them informed of happenings at the State. The statutory formula expires in 2007 and requires action by the Legislature.

### **Internal Control and Fraud Prevention**

Designing and maintaining a sound system of internal controls over assets, as well as fraud prevention and detection, are on the forefront in today's accounting environment. As part of our audit of the City's 2006 financial statements, we performed additional procedures as required by Statement of Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with members of the City Commission, administration, and other employees throughout the City; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures.

To the Honorable Mayor and Members      3  
of the City Commission  
City of Bloomfield Hills

September 15, 2006

The City Commission should be pleased to note that the additional inquiries and testing that were performed did not reveal any material internal control issues to be addressed by the City.

We would like to thank the City Commission for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in cursive script that reads "Leslie J. Pulver".

Leslie J. Pulver

A handwritten signature in cursive script that reads "Pamela L. Jadach".

Pamela Jadach